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No. 08-1477

Supreme Court, U.S.
FILED
AUG 11 2009
OFFICE OF THE CLERK

In The

Supreme Court of the United States

BADEN SPORTS, INC.,

Petitioner,

v.

MOLTEN USA, INC., and
KABUSHIKI KAISHA MOLTEN
(doing business as MOLTEN CORPORATION),

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

REPLY TO BRIEF IN OPPOSITION

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES ii

Summary of Reply 1

Argument In Reply 3

A. Molten Is Not Entitled to the Benefit of Factual Characterizations That The Jury Was Entitled to Reject When It Found in Favor of Baden's False Advertising Claim 3

B. Molten's Quarrel with Baden's Characterization of the Nature of the Jury's Damage Award is Both Meritless and Irrelevant to Whether This Court Should Grant Baden's Petition 6

C. The Federal Circuit's Reading of *Dastar* Does Conflict With the Distinction Between Lanham Act Origin of Goods and False Advertising Claims Drawn by This Court in *Dastar* – A Distinction That is Necessary to Effectuate the Consumer Protection Purposes of the Act 8

D. This Court Need Not and Should Not Wait For Further "Percolation," But Instead Should Act Now to Prevent Further Damage to the Consumer Protection Function of Subsection B of the Lanham Act 12

Conclusion 13

TABLE OF AUTHORITIES

Page

CASES

Coca-Cola Co. v. Procter & Gamble Co., 822 F.2d 28 (6th Cir. 1987) 10

Dastar Corporation v. Twentieth Century Fox Film Corp., 539 U.S. 23 (2003) ..... *passim*

STATUTES

Lanham Act ..... *passim*

Lanham Act, Section 43(a)(1)(A) 1, 9, 10

Lanham Act, Section 43(a)(1)(B) ..... *passim*

SUMMARY OF REPLY

Molten incorrectly asserts that the Federal Circuit's reading of *Dastar* is faithful to this Court's decision in that case. This Court was careful to distinguish between an origin of goods claim under Subsection A of the Lanham Act and a false advertising claim under Subsection B, which the Federal Circuit failed to do here. And while this Court did suggest that consumers of goods "typically" do not care about who first came up with the idea for a product, this Court did not presume to predetermine that consumers of goods will *never* care about who first came up with the design for a product. Whether consumers actually care about who first came up with a product's design is a factual question that can only be answered product by product.

Molten nonetheless insists that a misrepresentation about whether a manufacturer is an innovator in product design cannot by definition be a nature, characteristic or quality of a good and therefore cannot give rise to a violation of Subsection B. Molten is wrong, as the facts of this case demonstrate. Prospective buyers of sports balls are more likely to buy a sports ball manufacturer's product if that manufacturer has a reputation for being an innovator. Molten created the illusion that it was an innovator, by its false claim that its dual cushion ball was an innovation, when in fact it was a copy of Baden's dual cushion ball. (So clearly a copy that the District Court found the design of Molten's

ball infringed on Baden's patent for the design of its ball, as a matter of law.) By creating that illusion, Molten increased the likelihood that American sports ball consumers would purchase a Molten ball, because they would believe that by purchasing a Molten ball they were getting a cutting edge ball that would improve their performance on the basketball court.

Of course, those consumers would not actually receive a cutting edge ball, because Molten had been forced to stop selling its dual cushion balls in the United States, in order to "stop the bleeding" on the patent infringement front of its legal battle with Baden. But the fact that American purchasers of Molten balls would end up being deprived of the performance qualities they thought they would get by purchasing a Molten ball (and which they would actually have received, had they instead purchased a Baden dual cushion ball) merely goes to show that Molten's false advertising was producing precisely the sort of injury to consumers that Subsection B of the Lanham Act was designed to prevent. Baden's false advertising claim, by holding Molten accountable for that injury (measured by the damages awarded to Baden by the jury) is exactly the sort of claim that must be allowed if Subsection B is going to serve its purpose of discouraging false advertising that misleads consumers about the qualities, characteristics and nature of products which guide purchasing decisions. This Court needs to grant

Baden's petition so it can make clear that nothing in *Dastar* should be read to preclude such a claim.

Molten *is* correct that the Federal Circuit's decision does not (yet) create a conflict amongst the Circuit Courts of Appeals. But an answer to the question presented by Baden's Petition should not be deferred until more courts have had a chance to weigh in on whether they agree with the Federal Circuit's reading of *Dastar*. The "authorship" limitation on Lanham Act false advertising claims enforced by the Federal Circuit in this case materially impairs the consumer protection mission of the Act, as the record in this case amply demonstrates. The public interest is not served by waiting for further "percolation": The damage already done is sufficiently "scalding" to justify remedial action by this Court, now.

ARGUMENT IN REPLY

A. Molten Is Not Entitled to the Benefit of Factual Characterizations That The Jury Was Entitled to Reject When It Found in Favor of Baden's False Advertising Claim.

Molten, in the "Parties," "Technology at Issue" and "Molten's Marketing Efforts" portions of its Statement of the Case, tries to get the benefit of several factual characterizations that the jury was entitled to reject when it ruled in favor of Baden's false advertising claim.

• Molten implies that Molten had little or no interest in the American basketball market, by emphasizing static facts showing that Baden sells 95 percent of its basketballs in the United States while Molten sells 99 percent of its basketballs outside the United States. *See* Brief in Opposition ("Brief in Opp.") at 2. But other evidence introduced at trial showed Molten wanted to substantially increase its American market sales – and no wonder, since the evidence also showed that the American market is by far the single biggest sports ball market in the world.

• Molten tries to suggest that its dual cushion basketball was materially different from – and superior to – Baden's dual cushion ball. *See* Brief in Opp. at 3. But the District Court ruled before trial that, as a matter of law, Molten's dual cushion ball design infringed on Baden's patent for the design of its dual cushion ball, and the evidence at trial showed that whatever differences there were between the two balls were not material.

• Molten outright asserts that the change of the payment terms of its sponsorship agreement with FIBA had nothing to do with its introduction of the dual cushion basketball as the leading element of Molten's "innovator" advertising campaign. *See* Brief in Opp. at 3-4. This assertion, however, ignores evidence showing that Molten saw its continued relationship with FIBA as crucial to the success of that campaign, and in particular to its effort to create an association in the minds of American basketball consumers between Molten and "innovation," by

placing Molten's dual cushion basketballs in the hands of popular American basketball players (e.g., LeBron James) during the course of international competitions (e.g., the Olympic Games basketball tournament) extensively covered by the American sports media.

Baden's point is not that Molten's claims are contradicted by some sort of "smoking gun" evidence that Molten has failed to acknowledge in its briefing to this Court. The problem is different, and more fundamental. This case comes to this Court following a jury trial in which Baden prevailed on its false advertising claim, and a decision by the Federal Circuit that did not throw out Baden's award on that claim because the jury's factual findings supposedly were not supported by substantial evidence. Given this procedural posture, Molten is not entitled to the benefit of factual characterizations that the jury was entitled to reject when it found for Baden on its false advertising claim.

Moreover, Baden is entitled to the benefit of the inferences that the jury could reasonably have drawn in Baden's favor, when it found for Baden on its false advertising claim. Thus, Baden is entitled to the inference that the reason Molten agreed to a multi-million dollar increase in the annual fee Molten was paying to FIBA was to assure that Molten balls would continue to be used in FIBA competitions and that FIBA's president would endorse Molten's "innovator" claim – all part of Molten's effort to successfully brand itself as the "innovator" in basketball design,

which in turn would allow Molten to substantially increase its sales in the all-important American market. In sum, Molten must try and persuade this Court to deny Baden's petition in the face of a jury verdict that must be deemed to establish that Molten's "innovator" advertising campaign misled American basketball purchasers into buying Molten basketballs because they were led to believe that by doing so they would get the same cutting edge product that was helping their favorite basketball stars achieve their phenomenal level of performance.

B. Molten's Quarrel with Baden's Characterization of the Nature of the Jury's Damage Award is Both Meritless and Irrelevant to Whether This Court Should Grant Baden's Petition.

Molten takes Baden to task for (Molten says) "flatly misstat[ing] the basis of the jury's Lanham Act damage award." *See* Brief in Opp. at 6, n.2. Molten asserts that "[t]he jury did not calculate damages by taking the difference between the old and the new sponsorship agreements" and further asserts that the jury was not concerned with what Molten describes as Baden's "alleged" loss of goodwill. *Id.* Yet Molten does not explain how *it* knows how the jury did (and did not) calculate damages, beyond citing to Jury Instruction No. 17, which Molten does accurately characterize as stating that the measure of damages is to be any profits earned by Molten that are attributable to its false advertising. *Id.*

Quoting Jury Instruction No. 17 is the only thing that Molten gets right on this point. Damages *were* to be measured by profits earned by Molten attributable to its false advertising But what Molten apparently forgets is that Baden's damages expert opined that those profits could be measured by taking the additional amount of the sponsorship payments called for in the second sponsorship agreement compared to the amount of the payments called for in the prior agreement, and discounting that additional amount to present value: in other words, as Baden said in its Petition, "taking the difference" and discounting that to present value. Moreover, that the jury accepted the expert's approach and did just that is shown by the "match" between the expert's discounted value amount and the jury's Lanham Act damage award amount. As for goodwill: All Baden said was that it received an award of $8,000,000 for the loss of goodwill it suffered due to Molten's false advertising. And since loss of goodwill was the *kind* of damage Baden alleged that *it* had suffered, it rather clearly follows that the amount of the damages awarded were for – "due to," as Baden put it in its Petition – that loss of goodwill.

Of course, and as Molten elsewhere acknowledges, the Federal Circuit never reached Molten's challenge to the damages award, just as it did not reach the several complaints Molten lodged about the course of the trial proceedings, because the court instead accepted Molten's threshold argument that *Dastar* barred Baden's claim. Indeed, none of these

issues should matter to whether this Court should grant Baden's Petition; if the Court grants the Petition and reverses the Federal Circuit, the case will be remanded back to the Federal Circuit for it to resolve the issues left unresolved by its *Dastar* ruling. Baden has nonetheless chosen to address the damages point raised by Molten's Brief in Opposition, in order to assure this Court that Baden has not mischaracterized the record and proceedings below, whether regarding the issue of the measure of damages or any other factual matter addressed in Baden's Petition.

C. The Federal Circuit's Reading of *Dastar* Does Conflict With the Distinction Between Lanham Act Origin of Goods and False Advertising Claims Drawn by This Court in *Dastar* – A Distinction That is Necessary to Effectuate the Consumer Protection Purposes of the Act.

In attempting to defend the Federal Circuit's application of *Dastar*, Molten only manages to compound the Federal Circuit's misreading of that decision – a misreading that undermines the consumer protection purposes of Subsection B of the Lanham Act.

To begin, Molten misses the point of what the Federal Circuit called this Court's "dictum" at the close of *Dastar*. Here is what this Court said in that (so-called) "dictum":

> If, moreover, the producer of a video that substantially copied the Crusade [in Europe] series were, in advertising or promotion, to give purchasers the impression that the video was quite different from that series, then one or more of the respondents might have a cause of action – not for reverse passing off under the "confusion . . . as to the origin provision" of § 43(a)(1)(A), but for misrepresentation under the "misrepresents the nature, characteristics [or] qualities" provision of § 43(a)(1)(B). For merely saying it is the producer of the video, however, no Lanham Act liability attaches to Dastar.

Dastar, 539 U.S. at 38. What both Molten and the Federal Circuit fail to apprehend is that this is precisely what happened in this case. Molten did not merely say it was the manufacturer of its dual cushion basketball. Molten, in advertising and promotion of that basketball, tried to give prospective purchasers the (misleading) impression that its dual cushion basketball was quite different from all other basketballs on the market, and that the ball's (supposedly) unique performance-enhancing attributes established Molten as the "innovator" in sports balls.

That the misrepresentation went to all other basketballs on the market, as opposed to just Baden's dual cushion basketball, should make no difference. The falsity of the claim is established by the fact that Baden had already developed a dual cushion design basketball, and that there was no material difference

between Baden's ball and Molten's ball. Moreover, the resulting damage to Baden's goodwill produced by the advertising and promotion of Molten's false claim is what gave Baden the necessary incentive to sue Molten for false advertising. And it is only through such suits that the consumer protection purposes of Subsection B can be effectively vindicated. *Coca-Cola Co. v. Procter & Gamble Co.*, 822 F.2d 28, 31 (6th Cir. 1987) ("Under our economic system, competitors have the greatest interest in stopping misleading advertising, and a private cause of action under section 43(a) allows those parties with the greatest interest in enforcement, and in many situations with the greatest resources to devote to a lawsuit, to enforce the statute rigorously") (previously cited and quoted in Baden's Petition, at p.17). The import of this Court's "dictum" in *Dastar* for a proper resolution of this case therefore should have been clear: Unlike Dastar, Molten had violated Subsection B's prohibition on misrepresenting the nature, characteristics and qualities of a good, and Baden (the competitor most directly damaged by that misrepresentation) was entitled to sue Molten for that violation.

That the Federal Circuit missed the true import of this Court's "dictum" was almost certainly because of that court's failure to appreciate the context in which this Court in *Dastar* spoke about "authorship" as a limitation on a Lanham Act Subsection A "origin of goods" claim. Yes, Baden is saying that it, and not Molten, originated the dual cushion design. Baden, however, is not suing because Molten's claim could

create confusion about the origin of the dual cushion design. Baden is suing Molten because Molten used that misrepresentation to mischaracterize the characteristics of its dual cushion basketballs (claiming they offer "unique" performance-enhancing features when they do not), thereby falsely branding itself as the innovator amongst sports ball manufacturers.

Molten is correct that this Court observed in *Dastar* that a consumer of a branded product "typically does not care" who originated the design of that product. 539 U.S. at 32. But this Court was not presuming to predetermine whether consumers *could never* care about who originated the design of a branded product. This is a factual question, that must be resolved based on what is proven to matter to consumers of the product at issue. And as the evidence in this case clearly established, prospective purchasers of sports balls (and basketballs in particular) care *a great deal* about who originates breakthrough designs that promise enhanced performance. The evidence in this case showed that purchasers of basketballs often choose their brand on the basis of associations with the great players. If those players are shown using one manufacturer's basketball, that manufacturer claims that the players are using that manufacturer's ball because that basketball represents the cutting edge in design, *and* that quality is summed up again and again in advertising and promotion by the branding device "innovator" (which is what the evidence showed happened here), consumers will be more likely to

choose the "innovator's" product line over the competition's product line. And for precisely this reason, if the claim to be an "innovator" is false, the manufacturer making the claim should have to answer in damages for violating Section 43(a)(1)(B). To prohibit such a claim just because it can also be characterized as involving an issue of "authorship" frustrates the consumer protection purposes of the statute. By dismissing Baden's false advertising claim, the Federal Circuit has done exactly that – denied the consumers of sports balls, and of basketballs in particular, the protection against Molten's misleading claims that Subsection B was intended to provide.

D. This Court Need Not and Should Not Wait For Further "Percolation," But Instead Should Act Now to Prevent Further Damage to the Consumer Protection Function of Subsection B of the Lanham Act.

Molten is correct that the Federal Circuit's decision in this case does not (yet) create a conflict amongst the Circuit Courts of Appeals. But this Court is not *barred* by the absence of such a conflict from granting Baden's Petition. And given the clear damage to the consumer protection function of Subsection B of the Lanham Act that will flow from the imposition of an "authorship" limitation on such claims, the matter should not be left to "percolate" and the consumers of other products exposed to the

kind of "scalding" that the consumers of sports balls have already been subjected to by Molten's misleading advertising and promotional campaign.

CONCLUSION

This Court should grant Baden's Petition to resolve the question of whether Lanham Act Subsection B false advertising claims should be subject to the "authorship" limitation imposed by the Federal Circuit in this case.

Respectfully submitted,

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August 11, 2009